

JULY, 1943



BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Review of Seventh District Business

Further Declines Expected in Available Consumers Goods

June marked the end of the first full fiscal year of the war for the Federal government—a year of unprecedented expenditures, borrowings, taxes, income, production, and economic controls. Over-all civilian consumption remained above pre-war levels but declined from the previous year in many lines, notably consumers durable goods, clothing, household fuels, transportation and medical care. Many lower pre-war levels will be reached during coming months, but with varying degree of severity among different areas and population groups.

Most of the slack of the economic system of the Seventh District and the nation has now been exhausted, particularly with respect to manpower and other strategic resources. Increased war production henceforth very likely will mean a further reduction of goods available for civilian consumption, although some observers believe that the practicable limits to civilian restrictions are now in sight. As resources are more intensively utilized, expanded production even of some war items may be necessarily at the expense of other war items.

CIVILIAN INVENTORIES DWINDLE

There is little question but that inventories of civilian goods will continue their downward trend for some time certainly in physical terms and perhaps in dollar volume as well. Consumer expenditures during the first half of 1943 clearly have been in excess of many of the supplies to be available during the remainder of the year, foreshadowing increased pressures on price ceilings of consumer goods.

General prices continue to edge upward. In June 1943, prices of all wholesale commodities as reported by the United States Bureau of Labor Statistics were nearly 5 per cent above their level of a year ago. Farm commodities, however, were higher by more than 20 per cent, and foods by nearly 9 per cent. Advances have been most substantial among farm and food commodities since prices of all other commodities increased less than 1 per cent during the past year.

Overall food prices in Seventh District cities in May 1943 were above their April levels. The increase for the month in Detroit was almost 4.5 per cent, the second largest gain of any city in the nation for which figures are available. Price advances in Milwaukee and Peoria were also among the highest reported. Indianapolis was the only District city whose food prices rose less than the national average increase of 1.6 per cent. Within

the food group, the largest advances were reported for meats and fruits and vegetables; minor price declines were listed for beverages, fats and sugar.

Cost of living as a whole advanced 0.8 per cent in the United States, 1.8 per cent in Detroit, and 0.8 per cent in Chicago between April 15 and May 15, 1943. Since January 1941, costs of living have risen 25.9 per cent in Detroit, 24.2 per cent in the nation, and 22.8 per cent in Chicago.

LABOR FORCE SHOWS DECLINE

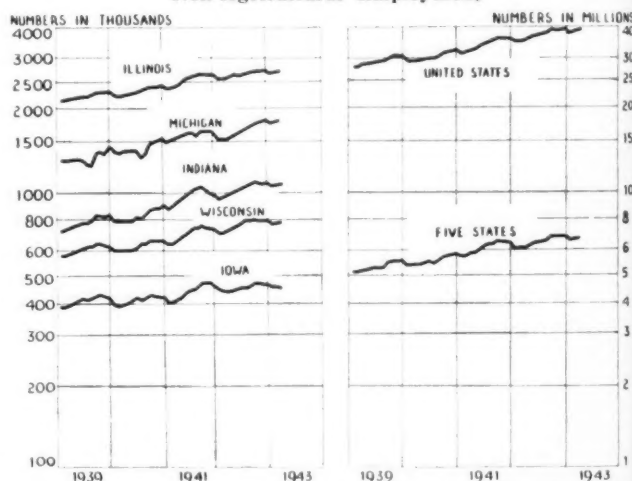
Despite the expansion of the armed forces, the size of the total civilian labor force during the past three years has remained fairly stable. Since January 1943, however, a significant decline has occurred. The average number of persons in the labor force during the first four months of 1943 was 52.2 million as compared with 54 million during the last four months of 1942, according to the United States Department of Commerce.

In April 1943, the civilian labor force numbered 52 million persons, 1.5 million persons less than during April 1942.

The number of employees in non-agricultural establishments on the other hand continues to show moderate gains. In the five states comprising the Seventh

(Continued on page 7)

Non-Agricultural Employment



Attention is called to the scale on which this chart is drawn. Equal distances on the vertical scale do not mean equal numbers of employed. This chart is known as a "ratio chart", the purpose of which is to emphasize the RATES of changes for different states or regions. If the distance between any two lines on this chart remain the same it means that the RELATIVE or PROPORTIONAL (percentage), increases or decreases are the same. If the distance becomes wider through the months it means that one is increasing at a faster rate than the other.

The National Food Prospect

Nation Faces Retrenchment on the Home Front

Food is the number one domestic problem of the country today. This is so not only from the standpoint of war strategy and the international policies related to it, but also from the standpoint of morale on the home front.

Not many months ago the slogan was: "Food Will Win the War and Write the Peace." Developments in recent months have so changed the situation that this slogan takes on added meaning. The dynamics of a rapidly changing war economy have made the food front a badly tangled skein of difficulties.

Comment and opinion on the food outlook range from the extreme pessimism of those who fear drastic shortages in this country during the next year or two to the extreme optimism of those who predict with self-assurance that the nation will "get by" with plenty to spare. The color of these viewpoints depends very largely upon the familiarity with detailed aspects of the job to be done in food, the length of time embraced in the particular viewpoint, and in general on the objectivity and detachment with which the situation is treated. Nevertheless, the question of the day is, "Will we have enough to eat?"

WHAT ARE THE FOOD NEEDS?

No appraisal of the food situation can get very far without first attempting to measure the total needs for the products of American agriculture. This is necessarily a difficult if not impossible task. It is difficult not only because certain military requirements must be kept secret to avoid tipping the hand as to future strategy, but probably also because the needs for military and lend-lease purposes are in some respects a list of contingencies in the minds of those charged with overall strategy. Therefore, little more can be done than to sketch in a very limited way the scope of the demand side for farm products.

On the military side it may be said that the number of men and women in the armed services will continue to expand in the months ahead until many more are in service. Serious and costly campaigns are in prospect which will require large stocks of food and fiber for current consumption, for the accumulation of reserves in stock piles and dumps, and for secondary reserves in depots to cover possible losses due to submarines and other military hazards. It is by now a well-known fact that the average service man eats more than he did in civilian life. This is so because of the

demands which the hard work and strain of military life place upon the human frame. The American soldier is reputed to be the best fed in the world and it will be the pride of this nation to see that this continues to be true. But this means a heavy draft on the nation's farms and processing industries and it means some sacrifice on the part of civilian consumers. This is probably nowhere better illustrated than in the case of beef. Out of the total of beef now being slaughtered, processors have been ordered to set aside 45 per cent for government purchase to be used largely in supplying the military forces.*

An increasingly important factor in total needs for food is the shipment of supplies to the American Allies under the aegis of the Lend-Lease Administration. Heavy demands in this category include pork, milk products, poultry and eggs, as well as supplies of dried fruits and vegetables. In 1942 the Lend-Lease Administration purchased about 12 per cent of the nation's farm output. In 1943 it is expected to absorb about 25 per cent.

Closely connected with lend-lease operations is the matter of food relief as a part of the strategy being followed in the countries taken over from the enemy. Food has come to be in many ways the symbol of American democracy. The needs for food in this case are dictated by three factors. The enemy has, in general, stripped the economies of occupied countries and reduced the resident populations to a near starvation level. Restoration of these people to minimum diets calls for heavy shipments of food, at least temporarily while the native population is bringing production back up to normal. Secondly, it is a part of the strategy of psychological warfare to utilize foods in showing the peoples of the reoccupied countries the fruits of the democratic way of life. Thirdly, food is also an important weapon in strengthening and bulwarking the resistance "behind the lines" in the occupied countries. As the reconquest of Europe progresses the demands for food to meet these needs will expand.

Perhaps the least understood factor in the swelling demands for farm products is the increasing wants of civilian domestic consumers. Dollar income payments to individuals will be nearly double in 1943 what they were in 1939. More people are working and earning

*Cover Photograph: The photograph of beef carcasses on the cover of this issue shows a packer operation on beef sides inspected by and destined for the United States Army. Photo, courtesy Swift and Company.

than ever before in the history of the country. Not only do they have larger appetites, but the possession of funds with which to satisfy them has brought these people into the market to buy quantities, varieties, and grades of food which previously were forbidden luxuries. To some consumers in the middle and higher income brackets this may appear unreal but the rationing of some items and the limited availability of supplies of others have resulted in a more uniform distribution over the whole population than has prevailed in the past. The increased demand may be illustrated from the government statistics on the apparent consumption of meats. Except for lamb and mutton the per capita consumption during the first quarter of 1943 was from 10 to 20 per cent larger than the five-year pre-war average, depending upon the variety of meat. These figures include government purchases for the armed services but exclude shipments for lend-lease. Even after allowing for the larger consumption of military personnel the figures imply a substantial increase in civilian per capita consumption, and this takes no account of the unknown quantities of meats going to consumers via the black markets, statistics for which are obviously not included in the government reports on federally inspected slaughter.

HOW WELL CAN THESE NEEDS BE MET?

The success of the domestic economy in meeting the needs for farm products arising from the four sources listed above depends, of course, upon a number of contingencies. One of the most important factors this year is the kind of growing weather and its effect upon the crop prospects. During May the growing situation deteriorated materially due to heavy rains and floods in some areas and drought in others, giving the least favorable crop prospects for this time of the year of the past three years. Drought is serious in parts of the Great Plains. With normal weather from now on the acreage sown to all crops will be nearly as large as that harvested last year. Yields may be above average, but in the aggregate they are not expected to be within reach of the 1942 records.

About four million acres of land were flooded in May. In Illinois alone the total crop land flooded was nearly 1½ million acres, of which more than 300 thousand acres are reported lost for 1943 production. In the Eastern Corn Belt, despite the wet planting season, reasonably full acreages appear to have been planted by shifting to quicker maturing varieties of seed. In view of the late planting the frost date has become a point of considerable concern to farmers because of the greater danger of soft corn and damaged soybeans.

Pastures are generally reported as good to excellent.

The truck crop areas have been especially delayed by wet weather and it appears now that production of commercial truck crops for the fresh market will be 10 to 15 per cent below the 1942 levels, although at least up to the ten-year pre-war average. Crops for processing have been somewhat harder hit, with the extent of reduction in output due to wet weather and late planting not yet fully determined. In general crops are reported to be making rapid growth, however, offsetting some of the expected loss from delayed sowing. At the current writing the overall prospect is for a good year, a little better than average, but somewhat short of the heavy production needed to supply the needs.

Record levels of livestock numbers on farms were achieved January 1, 1943. Nearly 74 million hogs were reported, a total approached only by that of 69 million in 1923. A pig crop of over 125 million has been forecast for the year. This is considerably more than the goal set by agricultural officials and they are now trying to encourage a smaller fall pig crop than that indicated as planned by producers. Total cattle on farms January 1 were estimated at 78 million head compared with the previous record of 74 million for 1934. Lambs and sheep totaled 55 million, a near record. The estimate of 540 million chickens was nearly 15 per cent above the previous record of last year.

Comparing with the pre-war average, 1935-39, there were 17 per cent more cattle, two-thirds more hogs, and one-third more chickens on farms on January 1 of this year. Along with these high numbers of livestock, the weight of hogs marketed has been running about 10 per cent above normal; egg output per hen is about 12 per cent over normal; and milk production per cow has been running about eight per cent above normal. In general, a greatly expanded livestock enterprise is a "plus" factor in the food situation.

However, the nation's ability to meet the food needs with livestock and livestock products is seriously limited by a tight feed situation. Pasture and roughage are ample, but in spite of bumper crops last year and reasonably good prospects for this year the supplies of feeds for the 1943-44 season are expected to be about 10 per cent smaller than they were for the 1942-43 season.

Temporarily a crisis has developed due to the O.P.A. ceilings on corn at slightly less than \$1 at the farm. With corn worth \$1.25 to \$1.50 to the farmer if marketed through feeding to hogs, farmers are holding corn, reported to be huge amounts in the aggregate, either for higher prices or to be used up as feed. "Surplus" corn areas are therefore shipping out no corn, and it is probable that, with expanded livestock operations, they

are not now "surplus" areas. The lack of available corn currently has put many feeders in a critical spot, and has resulted in the closing of many corn processing and refining plants. The government requisitioned some commercial stocks but the amounts taken were so small that only a few days' postponement of the difficulties was achieved. Many suggestions have been offered to relieve the unnatural situation.

To meet the longer range problem of filling feed requirements later in the season some imports of feed grains from Canada would appear desirable, but transportation facilities are so burdened that this may not be a practicable solution. A prospective increase of five to 10 per cent in livestock numbers by next January 1 would result in a reduction of supplies of grain per animal unit of 10 to 15 per cent. It appears at present that some reduction in the scale of current livestock operations will be wise and necessary in order to bring the feed and livestock supplies more nearly into balance. This curtailment will probably mean lighter and fewer hogs and a greater reliance on pasture and range for cattle feeding.

The farm labor problem, while still serious in some respects, has not turned out to be the bottleneck that was expected. Crews of imported labor have been of material help in easing some tight situations. City people, high school students, war prisoners, and other miscellaneous labor have to some extent relieved other situations. Nevertheless, labor is expected to be critically short at the harvest time for many crops. In the case of specialty truck crops some loss is occurring now for lack of labor to harvest them. Cannery and processors are particularly having difficulties in obtaining and holding labor to process available supplies. A part of their difficulty arises from the fact that they are seasonal industries and under the price ceilings they are unable to pay enough to attract labor. It is understood, however, that government agencies are working out a program of subsidies to processors to alleviate the situation in part.

Farm machinery and equipment is also a critical limiting factor in meeting the needs for farm products. Under the War Production Board order number L-257, released on June 15, production of new machinery is provided at the rate of about 80 per cent of the 1940 level. This is a material improvement over the expiring order which limited production to about 20 per cent of 1940. A total of 300 thousand tons of carbon steel was allocated under the order for the farm machinery program for the quarter beginning July 1. Advance authorizations were also made for an additional 600 thousand tons for the balance of the year to July 1, 1944. Quota restrictions on repair parts were removed in the

new order. If these allocated materials are made available to manufacturers promptly a substantial increase in farm machinery production should result in material help in meeting the food needs. It is expected that the new order will even permit manufacturers to make some additional equipment available for harvesting late this fall.

HOW WELL DO NEEDS AND PROSPECTS BALANCE?

When the tremendous needs for farm products are set against the limited facilities for meeting them the prospect for the coming year is that there will be substantial changes in the structure of the American diet and probably some reduction in the total food available. Because livestock and livestock products requiring feeds have out-run probable feed supplies, it appears now that diets will change in the direction of increased proportions of directly consumed grains, fruits, and vegetables and decreased proportions of meats, dairy products, and eggs. Because livestock on the average yield only about one pound of edible food per six or seven pounds of feed, it would appear to be necessary to encourage the more direct consumption of crop supplies in order to make more effective use of them.

From the farmer's standpoint one of the results of this change in food policy will be that the hog producer who does not have sufficient supplies of feeds will find it necessary and desirable to curtail his hog operations in favor of more elementary crop production. An official of the War Food Administration recently indicated that limited supplies of feed should be treated according to the following order of priority: milk and cheese; poultry and eggs; pork and pork products; lamb and mutton; and finally, beef. In the case of milk it is expected that shifts will be made in the direction of marketing more milk in the form of fluid whole milk and less in the form of butter and cream, in order to make a greater utilization of skim milk.

In spite of the very great need for food in carrying out the objectives of the lend-lease program it appears now that given the limitations referred to above it will be necessary in the coming year to reduce the schedules of food previously earmarked for lend-lease and for the reoccupied countries.

What this all adds up to is that in the months ahead we shall have to pull in our belts a bit and change our diets. The consensus of nutritional authorities seems to be, however, that this will be a sacrifice mainly aesthetic in nature and that there will be sufficient food, differing somewhat from our accustomed diets, to maintain the health and vigor of the nation.

Money Market Developments in June

Tax Payment Fluctuations Dominate Market

The quarterly payment of income taxes normally occasions considerable pressure on the reserve position of member banks as these payments are transferred from private accounts with commercial banks to the account of the Treasury with the Federal Reserve banks. To minimize the disturbance which these payments might otherwise cause to the money market the Treasury has encouraged the purchase of tax savings notes which occasion no loss of funds to the market when tendered in payment of taxes. However, in March and June only about one-fourth of the income and profits taxes collected by the Treasury was covered by tenders of tax notes. Therefore, the Treasury, prior to the tax collection dates, reduced its deposits with the Reserve banks to minimum levels. In addition, the Treasury financed a part of its expenditures through the sale of special certificates of indebtedness directly to the Reserve banks. These certificates were paid off as tax payments were received. In this way reserve positions of member banks were gradually built up prior to the tax payment date, thereby making available funds to meet the drain of tax payments to the Treasury.

In June the Treasury varied the normal pattern of its tax period procedure and did not resort to the use of the special certificates technique until June 15, when the Federal Reserve banks purchased direct from the Treasury a $\frac{1}{4}$ per cent certificate maturing June 30, amounting to 805 million dollars. The reason for this delay in using the special certificate was that on June 15, the Treasury paid off in cash approximately 1,100 million dollars of maturing and called Treasury issues. Thus it did not have to build up the reserve position of member banks gradually through an excess of expenditures over receipts prior to the income tax date but was able to do so in one lump sum on the 15th.

The amount of this special certificate was reduced each day following June 15 from the excess over expenditures of income tax collections and calls on war loan accounts until by June 21 it had been completely liquidated.

The effects of tax period financing can be seen from the chart which shows cumulative changes from May 26 in selected items from the condition statement of weekly reporting member banks in the Seventh District. Through the week ending June 16, demand deposits-adjusted increased as a result of Treasury spending. This increase was offset by a decrease of 246 million dollars of U. S. government deposits, resulting from calls

on war loan accounts. However, the reporting banks in the district were able to increase their reserve balances and Treasury bill holdings as a result of gains in inter-bank deposits.

The sharpness of the increase in demand deposits-adjusted for the week ending on June 16, can probably be associated with the financing of Treasury disbursements for issues maturing and called for payment on June 15, through the sale of a special certificate to the Reserve banks. To a smaller extent, it probably also reflects the transfer by business firms of funds from non-reporting to reporting banks to meet income tax installments payable in the larger centers. Of minor importance is probably the increase in "float" at the Reserve banks as the result of the lag in the clearance of checks for the transfer of funds by business firms from this district to other districts, mainly New York. During the last two weeks of June, demand deposits-adjusted decreased as the cashing of income tax checks more than offset the tendency for private deposits to increase from Treasury expenditures.

Outlying banks built up balances during the first half of June with reporting banks in the larger centers to meet the need for funds in those cities resulting from the transfer of balances by business firms for meeting income tax payments. In the latter part of the month, inter-bank deposits of the reporting banks declined as the checks for these transfers cleared.

Banks used Treasury bills to a large extent to adjust to fluctuations in their reserve positions caused by the income tax disturbances. Reserve balances expanded, but no more than sufficient to offset the increase in required reserves resulting from the rise in demand deposits-adjusted. Funds gained over and above the increase in required reserves were used to acquire Treasury bills, and excess reserves in the nation remained at a level somewhat above 1,500 million dollars.

The drain of funds through Treasury transactions in the following two weeks was met in the main by the sale of Treasury bills to the Federal Reserve banks which increased their holdings by 1,355 million dollars over the period. To a smaller extent, the drain was also covered by a decrease in reserve balances during the latter half of the month, a decrease which more than offset the decline in required reserves resulting from the fall in demand deposits-adjusted. Consequently, on June 30 excess reserves of member banks in the nation amounted to only 1,210 million dollars, a record low

level since 1937. This decline in excess reserves in the latter half of June paralleled experience in March and probably occurred mainly in outlying centers.

NOTE FINANCING BREAKS SUBSCRIPTION RECORD

Subscriptions to the Treasury 1½ per cent note issue of June 29-30 aggregated 19,544 million dollars, although only 2,500 million dollars had been offered. This was the largest over-subscription in the history of Treasury offerings. Allotment was made in full of all subscriptions of \$100,000 or less whether from banking or other sources. The total amount of such subscriptions received was about 1,347 million dollars. Subscriptions in amounts over \$100,000 were allotted on a 7 per cent basis and probably totaled somewhat less than the 1,347 million dollars allotted on subscriptions of \$100,000 or less. The effects of this financing will not appear on the condition statements of banks until July 12, the payment date for the notes.

BANKS AND THE WITHHOLDING TAX

The Treasury will handle the new pay-as-you-go income tax collections through the banking system, thereby assuring the Treasury of the prompt receipt of these taxes as collected. Employers withholding taxes from wages or salaries of employees will deposit these funds with qualified depository banks. A depository bank when it accumulates a balance of \$5,000 will remit the full balance to the Federal Reserve bank in its district no later than the following business day, but not more often than once each day. On the last business day of the month, the entire balance must be remitted irrespective of the amount.

Any incorporated bank insured by the Federal Deposit Insurance Corporation is eligible to qualify as a depository of withholding tax funds, and may become a qualified depository by filing the appropriate application forms with the Federal Reserve bank in its district. Depository banks will be compensated by being permitted to purchase 2 per cent depository bonds either with their own funds or with funds deposited with them by the Treasury.

The current payment of individual income taxes will largely serve the purpose of Series A Tax Savings notes which were designed primarily for the convenience of small tax payers. Accordingly, the Treasury announced on June 23 that the sale of these notes had been discontinued at the close of business June 22. Holders of outstanding Series A notes will be allowed to redeem them for cash or for taxes at the tax payment value current at the time of redemption. Previously, these notes were redeemable in cash only at the original purchase price. Sales of Series C notes, designed for corporate and other large investors, will be continued, but

will hereafter be designated as Treasury Savings notes of Series C.

WAR SPENDING CREATES RECORD DEFICIT

On June 30 the Treasury completed its first full fiscal year of the war. Expenditures, of which more than 90 per cent were for war purposes, were more than double the expenditures of the fiscal year ending June 30, 1942. While net receipts were the largest in the Government's history, the increase in receipts over the preceding fiscal year was sufficient to offset only slightly more than one-fifth of the increase in expenditures. As a result the Government's deficit was almost three times as large as in the preceding year. The deficit, together with an increase in the general fund balance, was covered by an expansion in the public debt, direct and guaranteed, of almost 64 billion dollars. A summary of budget statistics for the 1943 and 1942 fiscal years is given in the accompanying table.

Total expenditures for the fiscal year 1943 were 2,253 million dollars less than the budget estimate of January 6, 1943. Of this, 1,891 million dollars was on account of war activities. Receipts, including more than 450 million dollars returned to the Treasury as a result of the negotiations of war contracts, were also below the budget estimate of January 6. Because tax payers anticipated the enactment of pay-as-you-go tax legislation,

GENERAL BUDGET SUMMARY

Fiscal years 1942 and 1943

(In billions of dollars)

	1943	1942
Expenditures:		
War Activities.....	72.1	26.0
Other.....	6.1	6.4
Total Expenditures.....	78.2	32.4
Receipts:		
Income tax.....	16.1	8.0
Other receipts (net).....	6.2	4.8
Net Receipts.....	22.3	12.8
Net Deficit.....	55.9	19.6
Net Expenditures of trust accounts, increment on gold, etc.....	1.9	3.5
Increase in general fund balance...	6.5	0.4
Increase in direct public debt.....	64.3	23.5
Decrease in guaranteed obligations not owned by Treasury.....	-0.5	-1.8
Increase in public debt, direct and guaranteed.....	63.8	21.7
Public Debt, direct and guaranteed, at end of year.....	140.8	77.0

a much smaller proportion of the income tax liabilities due on 1942 incomes was paid in full in March 1943.

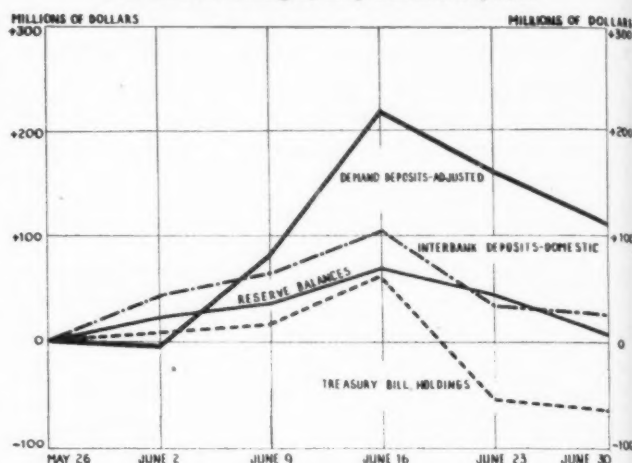
A feature of the increase in the public debt during the fiscal year just ended was the large proportion which represented either demand liabilities or securities maturing in one year or less. The Federal debt in the hands of the public increased approximately 61 billion dollars. Of this, about 22 billion dollars or slightly more than one-third consisted of Treasury bonds or Treasury notes. Treasury bills, certificates of indebtedness, and tax notes in the hands of the public increased about 27 billion dollars while U. S. Savings bonds outstanding were increased by somewhat more than 11 billion dollars.

Concentration of the increase in the debt in short maturities reflects the desire of monetary authorities to limit the investments of banks to short maturities offering a minimum of risk of price depreciation. The temporarily idle funds of corporate investors can also best be tapped through the medium of short term issues such as tax savings notes and certificates of indebtedness. U. S. Savings bonds, of course, are made redeemable on demand in order to insure the small investor against price changes.

INCREASED USE OF TREASURY BILLS

The increased use which banks outside the money market centers are making of Treasury bills is indicated in the table on this page. During the first six months of 1943, weekly reporting banks in the 99 cities outside of New York and Chicago expanded their bill holdings almost 70 per cent. New York banks actually decreased their holdings while Chicago banks, which had approached a fully invested position in the autumn of 1942, showed only a nominal increase. "Others" expanded their holdings almost 60 per cent, indicating that banks other than reporting banks have also found the $\frac{3}{8}$ % buying rate privilege and repurchase option

SELECTED ITEMS OF CONDITION Seventh District Weekly Reporting Banks Cumulative Changes, May 26-June 30, 1943



of increasing value in adjusting their reserve positions, while at the same time obtaining income from funds which otherwise would be held idle.

These changes reflect the tendency for funds raised by the Treasury in the money market centers to be disbursed over the rest of the country. In part, they also reflect the substitution by outlying banks of bills for funds previously held as excess reserves or carried as balances with correspondents.

Probably reflecting the increased use of Treasury bills, average excess reserves of reserve city banks in the Seventh District fell from 131 million dollars for the month of December to 74 million dollars for the semi-monthly period ended June 16 despite an increase in their gross demand deposits of 531 million dollars. Country banks allowed their excess reserves to fall from 136 million dollars to 123 million dollars over the same period although their gross demand deposits increased 412 million dollars.

HOLDINGS OF U. S. TREASURY BILLS (Amounts in millions of dollars)

	Outstanding	Weekly Reporting Member Banks			Federal Reserve Banks	Others
		New York	Chicago	99 Cities		
Amount:						
Dec. 30, 1942.....	6,626	1,818	441	1,527	823	2,017
June 30, 1943.....	11,874	1,803	479	2,578	3,815	3,199
Increase.....	5,248	15*	38	1,051	2,992	1,182
Percentage Distribution:						
Dec. 30, 1942.....	100.0	27.4	6.7	23.1	12.4	30.4
June 30, 1943.....	100.0	15.2	4.0	21.7	32.1	27.0
Percent increase.....	79.2	0.8*	8.6	68.8	363.5	58.6
Percent of increase.....	100.0	0.3*	0.7	20.1	57.0	22.5
* Decrease						

REVIEW OF SEVENTH DISTRICT BUSINESS

(Continued from inside front cover)

Federal Reserve District, 6.8 million persons were included in March 1943 as compared with 6.2 million during the same month a year ago, and 5.1 million in March 1939. The nation as a whole had an estimated 38.2 million non-agricultural workers in March 1943, 35.4 million in the same month in 1942, and 28.8 in March 1939.

Unemployment in the nation and the Seventh District has declined rapidly since 1940. Less than 2 per cent of the labor force, a near practical minimum, is now classified as unemployed as compared with 16 per cent in April 1940. Relatively more men have left the unemployment rolls than women with the result that the proportion of women among the unemployed has become steadily larger, rising from about one-fourth of the total in 1940 to nearly one-half at the present time.

With most of the unemployed now absorbed into industry, agriculture, and the armed forces, the recruitment of new workers for employment has become increasingly difficult. For some time efforts have been concentrated upon increasing the number of women workers. Nearly 16 million women now are employed throughout the nation, and many more are needed. The War Manpower Commission reports a slow but steady increase in the use of non-white workers in war plants.

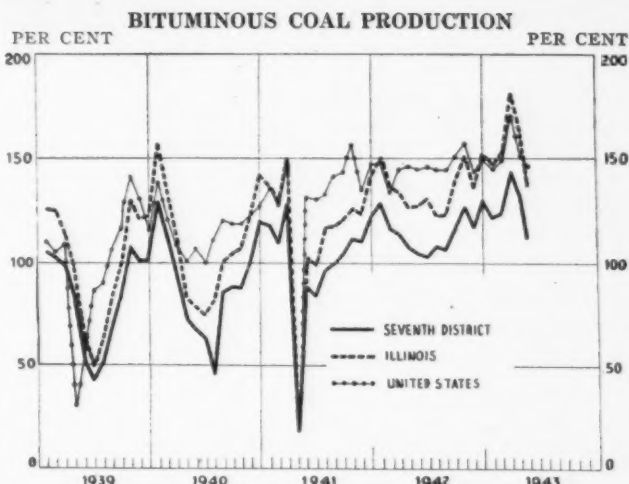
Since March the supply and demand for farm labor has been less out of balance than previously anticipated. Imported labor and more effective utilization of available manpower for farm use have contributed to this improvement. The reduced food production expected during 1943 should lessen somewhat the over-all demand for farm workers, but many critical manpower shortages are expected to arise in connection with coming seasonal operations.

Particularly hard hit by labor stringencies in recent weeks have been service industries such as laundries, food stores, and restaurants. The War Manpower Commission in some instances has designated some of these activities on a local basis as necessary to civilian life.

INDUSTRIAL PRODUCTION REMAINS HIGH

The trend in industrial production in general is still upward, but at a slow rate. Downturns in certain industries persist, however. Construction activity in the Seventh Federal Reserve District in May, judged by building contracts awarded, was less than one-third of the level of a year ago. Direct military construction is falling off sharply, especially military housing. Ordnance plant construction has experienced the severest drop among all war facilities.

Materials for furniture production are becoming in-



Data taken from the Bituminous Coal Division reports based on railroad carloadings and river shipments, and expressed in terms of indexes with 1939 monthly average = 100. By months, January 1939 through May 1943.

creasingly limited. WPB announced in June that extreme varieties in furniture henceforth would be curtailed, calling for an approximately two-thirds cut in the number of existing patterns. However, since roughly 75 per cent of the furniture business involves only 25 per cent of the existing patterns, this new order probably will not affect the bulk of the consumers.

Wood today is hardly less critical than steel, and many types of wood are not available for consumers' goods. Hard woods and even veneers are urgently needed by the armed forces. Gross lumber stocks at mills at the close of the first quarter of 1943 were nearly 20 per cent below the 1942 year end level. Because wood is necessary to food production, the WPB has approved the allocation of 500 million board feet of additional lumber for the use of farmers. The north-central states which include the Seventh Federal Reserve District will receive more than half of this allocation. Iowa farmers will be allowed 43 million board feet, the largest amount for any state in the nation.

COAL CONTROVERSY UNSETTLED

Two important work stoppages occurred in the nation's coal mines during June, the result of the inability of coal miners, coal operators, and the government to conclude an agreeable settlement of the controversy arising out of the miners' demand for increased pay. Reduced coal output caused serious difficulties in many war plants, especially steel, forcing the shutdown of a number of furnaces in Eastern steel centers. The United Mine Workers' president, John L. Lewis, has now ordered the miners back to work until October 31. Presumably every effort will be made to reach a satisfactory agreement by that date, but in all probability new

measures will have to be taken to reach a settlement since previous truces have only ended in additional work stoppages.

Work stoppages in the coal mines of the Seventh District have been relatively less severe than in the Appalachian fields. In the nation, coal strikes during the first half of 1943 were largely responsible for coal production being 1.7 million tons, or 0.6 per cent smaller than during the same period in 1942, whereas Illinois production, by comparison, was almost 16 per cent greater. The difference is to be explained largely in terms of the earlier tentative wage settlement between coal operators and miners in Illinois.

The loss in coal production may not be sufficiently serious to necessitate rationing during the coming winter months, but civilians are now being urged to order winter coal as soon as possible. The tightness in the supplies of industrial coals is likely to continue for many months because of the substantial inventory losses brought about by the coal mine stoppages. The steel industry considers present coal and coke supplies to be dangerously low particularly because of the slowness of the miners to return to work after the latest stoppage. Some feel that coal and coke stock piles cannot be rebuilt to the point of safety for the duration of the war.

Aggregate steel ingot production in the nation was reported to be at 92 per cent of rated capacity on July 1 as compared with 97 per cent of capacity at the beginning of June. Chicago mills were operating at 98 per cent of capacity in July as compared with 97 per cent a month earlier. Present estimates are that over-all steel ingot output for the first six months of 1943 will be only 2 per cent larger than during the same period in 1942. Barring another coal stoppage, steel output is scheduled soon to rise to new record levels as the steel expansion program nears completion. For the remainder of the year, however, the lack of coke and the need for furnace repairs may be serious obstacles to increased production.

The production of crude petroleum in the midwest states is steadily declining while the demand for refined products continues to grow. Illinois crude output has now declined to 6.7 million barrels per month, the lowest output since important oil discoveries several years ago raised the state to national importance in crude production. The future for civilian gasoline consumption in the district appears to be very much in doubt because of the shortage of crude oil at Mid-West refineries and the large volume of refined products needed on the East Coast by the armed forces and civilians for essential use. Stocks of gasoline on hand are declining in light of the increased demand by farmers and others. The extreme shortage of third grade gasoline is still evident

while the demand for higher grade gasolines is somewhat less tight.

Shortages of pulp wood for paper production are now acute in some areas. The principal difficulty is the shortage of manpower in the forests to procure the necessary wood for conversion into pulp. To alleviate this situation as much as possible, the War Manpower Commission recently classified the cutting of pulp wood and the manufacture of pulp as well as certain kinds of paper as essential to the war. This order promises to reduce the number of woodcutters who have been drafted into the armed forces or transferred to other activities. The demand for all types of paper board, particularly shipping cartons, has resulted in a very short supply of hard-fibered waste such as corrugated containers. Plans are now being discussed for increasing the collection of needed waste paper.

Production of shoes and boots in the Seventh District during May was slightly below the April figure of 3.5 million pairs. Final production figures for 1942 now indicate that Seventh District factories produced nearly 41 million pairs, considerably above the output for any previous year. During the first five months of 1943 production was slightly lower than for the same period in 1942.

The world's second largest aluminum sheet mill began operations in June in the Chicago area. The plant is a complete unit for producing aluminum sheet with facilities for smelting, heat-treating and other necessary operations. The plant is designed primarily to supply aluminum alloy materials to wartime aircraft manufacturers.

INDIANAPOLIS SALES BOOM

Department store sales in the Seventh District declined seasonally almost 10 per cent in May from the previous month, but nevertheless were 11 per cent higher than in May 1942. Preliminary figures for June indicate a slight rise over May and a more substantial gain over the same month a year ago. Indianapolis consistently shows the greatest increases among reporting areas in the district.

A highlight of retail sales in June was the violent demand for shoes during the period immediately preceding the expiration date of the first shoe ration coupon. Shoe stocks throughout the district were seriously depleted, and current indications are that inventories may not be rebuilt for many months. The wave of shoe buying also contributed to the increases in sales of other goods. Sales of some women's ready-to-wear items persist far above even 1942 record levels, particularly fur suits, coats, and neckwear. Blankets and linens are also selling in very large volumes.

National Summary of Business Conditions

(By the Board of Governors of the Federal Reserve System)

Industrial activity and retail trade were maintained in large volume during May and the early part of June. Retail prices, particularly foods, increased further in May.

Production—Total volume of industrial production, as measured by the Board's seasonally adjusted index, remained in May at the level reached in April. Activity in munitions industries continued to rise, while production of some industrial materials and foods declined slightly. Aircraft factories established a new record in producing 7,000 planes in May.

In most nondurable goods industries there were small increases or little change in activity. Meat production, however, reached a record high level for May, reflecting a sharp advance in hog slaughtering. Seasonally adjusted output of other manufactured goods continued to decline. Newsprint consumption showed little change, and publishers' stocks declined further to a 50-day supply on May 31. Consumption for the first five months of 1943 was only 5 per cent below the same period in 1941, whereas a reduction of 10 per cent had been planned.

The temporary stoppage of work in the coal mines at the beginning of May brought production of bituminous coal and anthracite down somewhat for the month. Iron ore shipments on the Great Lakes continued to lag in May behind the corresponding month of 1942.

The value of contracts awarded for construction continued to decline in May, according to reports of the F. W. Dodge Corporation. Total awards were about 65 per cent smaller than in May a year ago.

Distribution—During May the value of sales at department stores decreased more than seasonally, and the Board's adjusted index declined 5 per cent. Sales, however, were about 15 per cent above a year ago, and during the first five months of this year showed an increase of 13 per cent over last year. In general, the greatest percentage increases in sales have occurred in the Western and Southern sections of the country where increases in income payments have been sharper than elsewhere.

Freight-car loadings advanced seasonally in May but declined sharply in the first week in June, as coal shipments dropped 75 per cent from their previous level, and then recovered in the second week of June as coal production was resumed.

Commodity Prices—Prices of farm products, particularly fruits and vegetables, advanced during May and the early part of June, while wholesale prices of most other commodities showed little change.

Retail food prices showed further advances from the middle of April to the middle of May. On June 10 maximum prices for butter were reduced by 10 per cent and on the 21st of the month retail prices of meats were similarly reduced, with Federal subsidy payments being made to processors.

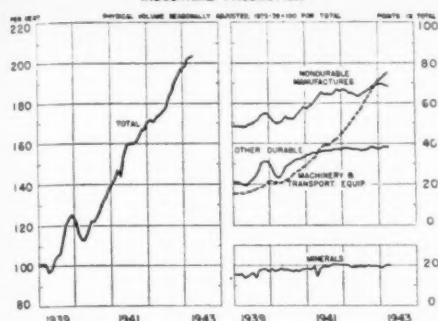
Agriculture—Prospects for major crops, according to the Department of Agriculture, declined during May while output of livestock products continued in large volume, as compared with earlier years. Indications are that acreage of crops may not be much below last year but that yields per acre will be reduced from the unusually high level of last season.

Bank Credit—Excess reserves at all member banks declined from 2 billion dollars in early May to 1.5 billion in the latter part of the month and remained at that general level through the first half of June. As the Treasury expended funds out of war loan accounts which require no reserves, the volume of deposits subject to reserve requirements increased and the level of required reserves rose by 600 million dollars in the four weeks ending June 16, while continued growth of money in circulation resulted in a drain on bank reserves of 400 million dollars. These reserve needs were met in part by Treasury expenditures from balances at the Reserve Banks and in part by Federal Reserve purchases of Treasury bills. Reserve Banks continued to reduce their holdings of Treasury bonds and notes in response to a market demand for these issues.

During the four weeks ending June 16, Treasury bill holdings at member banks in 101 leading cities fluctuated widely, reflecting primarily sales and repurchases on option account by New York City banks in adjusting their reserve positions. Holding of bonds and notes declined somewhat while certificate holdings increased. Loans to brokers and dealers in securities declined sharply during the period, as repayments were made on funds advanced for purchasing or carrying Government securities during the April War Loan Drive. Commercial loans continued to decline.

Government security prices advanced during May following the close of the Second War Loan Drive, but in the early part of June there were small declines.

INDUSTRIAL PRODUCTION



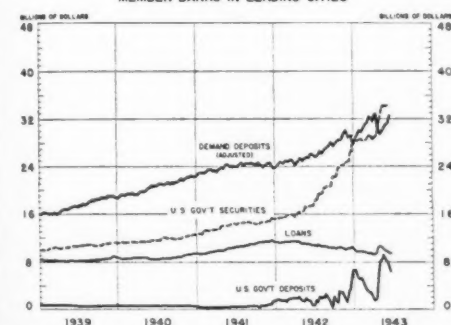
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for May.

WHOLESALE PRICES



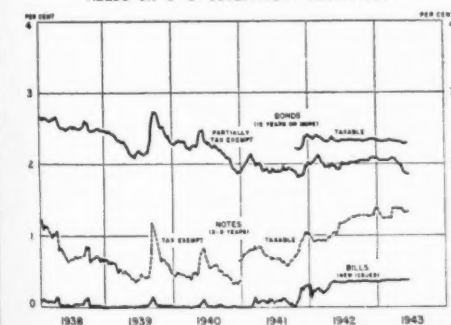
Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ending June 12.

MEMBER BANKS IN LEADING CITIES



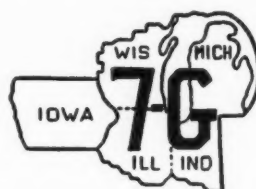
Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for June 16.

YIELDS ON U. S. GOVERNMENT SECURITIES



Averages of daily yields on notes and bonds and average discount on bills offered. Bills are tax-exempt prior to March, 1941, taxable thereafter. Weekly figures, latest shown are for week ending June 19.

SEVENTH FEDERAL



RESERVE DISTRICT



